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FOREIGN AGRICULTURE



January 12, 1970

World Coffee Trade in the 1960's

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The Common Market—Review of the Past and Outlook for the Future

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This week's cover:

A closeup of the coffee tree reveals the "cherry," or fruit, surrounded by blossoms. Each cherry contains two seeds called coffee beans. For a review of world coffee trade in the 1960's see article beginning on page 6.

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The Common Market

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The European Community at the close of this decade can perhaps best be described as a customs union on the rocky road to full economic union. Far in the distance is the ultimate goal, not altogether shared, of political unity.

The Community grew out of a postwar desire for sound economic growth, political stability and security, and a greater European voice in world affairs—goals that many European statesmen believed could be achieved only through the development of an integrated Europe. With the signing of the Treaty of Rome in March 1957, Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands pledged themselves to the establishment of an economic union. The essential elements of this union were to be a customs union; a common policy for agriculture, transportation, and external trade; and the eventual harmonization of economic and social policies. As the decade ends, the customs union has been completed (ahead of schedule), and the establishment of the Common Agricultural Policy, which began in July 1962, is far advanced, covering about 90 percent of Community agricultural production. Thus, much has been accomplished—but much remains to be done.

From the agricultural viewpoint, the Community might be characterized as a market of 185 million consumers who spent nearly \$70 billion on food products last year. Their combined gross national product totals \$340 billion. Supplying this market is an agricultural working force of 11 million people on over 6 million farms, covering an agricultural area a little larger than the State of Texas. Community members import and export more than any other trade group in the world, including agricultural imports valued at \$12 billion and agricultural exports worth \$6 billion.

How the CAP operates

Common policies have now been adopted for nearly all the major agricultural commodities produced in the Community. While these policies differ a great deal in some specifics, they are basically quite similar. Above all they provide a comprehensive mechanism of price support, the basic elements of which are variable levies, support (or intervention) prices, and export subsidies.

Government intervention agencies insure that Community farmers receive at least the support price for many of their products; these support prices are well above world prices. Variable levies protect the domestic market and prevent im-

With the turn of the decade, the European Community finds itself in the pivotal position between customs union and full economic union. As it pushes toward its ultimate goal, it will have to face such questions in the agricultural sector as restructuring, surpluses, and admission of new members.

Review and a Look at the Problems Ahead

ports from depressing domestic prices. (In fact, the levies usually operate in such a way as to make the imported product considerably more expensive than the domestic product.) Receipts generated by the levies are used to help pay costs incurred by the intervention agencies and to subsidize exports to other countries at competitive prices, thereby providing a safety valve for excess domestic production. These receipts, however, have covered only about 40 percent of the mushrooming costs of the CAP.

Two other aspects of the CAP are of great importance: Production controls are absent, except in the case of sugar, and common prices have been superimposed on the diverse agricultures and agricultural policies of the six member countries. In some countries, considerable changes were wrought in agricultural price structures. Establishment of a common wheat price, for example, meant a substantial rise in French prices and a decline in German prices.

As a result of the CAP, a Community self-sufficiency rate of more than 100 percent for a commodity subject to high support prices can be quite expensive. Since domestic prices are allowed to fall only to the support price level, the market-clearing function of prices is minimal. Consequently, excess production must either be unloaded at the world price by means of a heavy subsidy or it must be purchased and stored by the intervention agency until some outlet can be found. The disposal of such surpluses has driven up the cost of the CAP to an extent unforeseen by its authors. In fiscal 1969, market support and export subsidies cost the Community nearly \$1.8 billion.

Surpluses: a Community headache

The Community's major surplus commodities are wheat, sugar, and dairy products; surpluses also are in evidence in the fruit and vegetable sector. In the 1968 crop year, the Community's self-sufficiency rate for wheat was 112 percent, up from 90 percent in the early 1960's. The surge in soft wheat production has been primarily the result of increased yields stimulated by the high level of prices; acreage has declined slightly. In the face of a growing glut in the world wheat market, disposal of the wheat crop has been a severe headache—and an expensive one—for the Community. Lavish export subsidies have been applied, in some cases greater than the sales price, and increasingly the Community has utilized subsidies to promote denaturing of wheat for use as feed. Despite these measures, Community grain stocks, mostly wheat, reached a record level of over 14 million tons just before the 1969 harvest and may be matched again this year.

A similar situation exists in the dairy and sugar industries. The depression of world prices as a result of widespread overproduction of dairy products has made EC exports possi-

ble only at enormous cost. Despite additional programs aimed at increasing the use of milk products in animal feed, manufacturing, and food-aid programs, surplus stocks of butter have continued to grow at an alarming rate. Present stocks of over 400,000 tons have been projected to reach 1.9 million tons by 1974. The main problem in the dairy industry is that steady production increases, owing to improved technology and higher yields (stimulated, no doubt, by the high EC prices), have been consistently outrunning domestic consumption.

Production of sugar in 1968-69 was 15 percent greater than human consumption requirements in the EC. Since the early sixties, the Community has been a net exporter of sugar. World sugar prices, however, took a tremendous drop in 1965 and have since remained low. With a domestic price about four times the world price, exportation suddenly became a very expensive means of disposal. The diversion of sugar into animal feed, an alternative and almost equally expensive means of disposal, also has been subsidized. Community production quotas, which were established primarily to protect national sugar interests, have not prevented overproduction.

The problems involved in the disposal of these surpluses are at the core of the current controversy over the future direction of Community agricultural policy. They have precipitated a debate over the basic soundness of the CAP and a struggle over its financing; they have also stimulated new interest in agricultural reform.

Community production and consumption requirements of pork, poultry, and eggs are just about in balance. The adoption of modern technology in the poultry and egg industry has enabled production to rise rapidly. High market prices, sustained by variable levies and export subsidies, provided great incentive for the development of these industries; however, no support prices were provided for these products. In the case of pork, production and consumption have grown apace, with exportable surpluses more common than deficits. The CAP for pork provides both variable levies and export subsidies, as well as a special system of support prices—more flexible than those applied for most other commodities.

Some deficits still exist

The major deficit areas of Community production are fats and oils (including oilcakes), feedgrains, and beef. The deficit is most marked in fats and oils, where Community production met only 36 percent of consumption requirements in 1966-67; vegetable oils and oilseeds account for the major portion of the deficit. The Community produces olive oil and some oilseeds such as rapeseed and sunflowerseed. Under the stimulus of a high guaranteed price insured by direct subsidies, production of rapeseed has increased substantially

in the last few years; nevertheless, Community production still covers only a small portion of the demand for oilseeds.

Import demand for oilseeds and products has remained strong. The high price structure for grains and butter embodied in the CAP has no doubt been a factor in stimulating this demand. Moreover, duty-free bindings on oilseeds in GATT prevent the imposition of variable import levies.

The deficit in feedgrains is primarily in corn. Corn production in 1967-68 met less than half of domestic requirements. Increases in corn acreage and production in France, and more recently in Italy, have been significant, however. Increased barley production, on the other hand, has moved the self-sufficiency rate for this grain from 88 percent in the early 1960's to 105 percent in 1967-68, and the Community is nearly self-sufficient in oats. The Community would obviously like to stimulate production of feedgrains in lieu of wheat production. Increased production of corn and barley, spurred on by high domestic prices, and the increased use of wheat for feed may well enable the Community to narrow its deficit in this sector.

The self-sufficiency rate for beef, after a decline in the early 1960's, increased somewhat to nearly 90 percent in 1968. This is another area where the Community would like to increase production, in particular at the expense of dairy production. With incomes rising, a substantial growth in beef consumption is to be expected. Beef production is closely tied to dairy production in the Community, however, and the existing farm structure does not appear to be suited to the development of specialized beef herds. Considerable doubt exists as to whether the necessary structural adaptations can be made.

Whither the Mansholt Plan?

The controversy surrounding agricultural policy in the Community was heightened about a year ago when the so-called Mansholt Plan—an ambitious long-range program for agricultural reform—was introduced. This plan made recommendations aimed at restoring EC balance in the various commodity markets. These recommendations included a 30-percent reduction in the support price for butter; institution of "slaughter premiums" for dairy cows and "fattening premiums" to encourage beef production; a 5-percent reduction in sugar quotas; and imposition of a tax on vegetable oils, oilcakes, and other competing fats and oils products, presumably to increase demand for butter relative to margarine and for grains relative to oilcake.

The main thrust of the plan, however, was directed at basic social and economic structural change. A number of ambitious (and expensive) measures were recommended, aimed at enlarging and rationalizing Community farming units as well as sharply reducing the agricultural working force by about half and taking about 7 percent of farmland out of crop production. In 1967 the agricultural work force accounted for about 15 percent of the total EC work force; the proportion was greatest in Italy, at 24 percent, and smallest in Belgium, at 6 percent.

Whether the Community will be able to obtain the consensus necessary to put the Mansholt Plan, or any other comprehensive plan of agricultural reform, into force remains in doubt. To date, structural improvement has been the step-child of the CAP, accounting for only 12 percent of total CAP expenditures in 1968-69. In presenting its proposals,

the Commission emphasized that an overall approach must be developed—that a piecemeal consideration of reform must be avoided. Some minor aspects of the plan, the slaughter premiums, for example, have been adopted; little, if any, progress, however, has been made towards agreement on the basics of the plan. As a result of this inaction in the face of the steadily worsening surplus situation, a modified, less ambitious version of the Mansholt Plan was submitted to the EC Council of Ministers on November 24-25. Basically, the proposals call for a lowering of support prices for wheat, sugar, and butter, an increase in the support price for milk powder (the proposed reduction in the butter price is about one-half that originally proposed), and the channeling of the "savings" resulting from this reduction into structural improvement. Whether this modified plan will prove more palatable to the Member States remains to be seen. The proposal for a tax on oilseeds, which would particularly impair U.S. soybean exports, has for the time being at least been pushed into the background because of sharp U.S. reaction.

Enlargement remains possible

No definite timetable has been proposed for a consideration of the British, Norwegian, and Danish and Irish applications to the EC. However, it was agreed during the December 1969 Summit Conference that preparations for negotiations with the United Kingdom should be completed prior to June 30, 1970. Other members of the European Free Trade Association (EFTA) have also expressed a desire for some association with an expanded EC, although many political problems would have to be worked out. For example, Sweden, Austria, and Switzerland would insist on maintaining their political neutrality, and Finland, as a popular journalist recently wrote, "must always keep her Soviet bridges in top shape."

Recently, many spokesmen have concentrated on the probable effects of Danish and U.K. membership. One conclusion seems to be that producer prices would rise to EC levels in Denmark for most major commodities and that membership would be likely to stimulate Danish exports of certain cheeses, beef and veal, live animals, and perhaps pork. Denmark is a highly efficient agricultural producing country; this and its desire to keep prices competitive in export markets are reflected in generally lower prices than in the EC. A Danish government report estimated that full membership could result in an additional \$200 million annually for Danish farmers because of higher farm revenues. On the negative side, Danish butter exports to the United Kingdom could be threatened because of the Community's dairy surplus, although the United Kingdom would probably continue to be a principal customer for Danish butter.

Many agricultural policies would have to be changed in any EFTA country that joins the EC, assuming the present CAP is not modified. For example, Denmark would have to end its two-price system, under which farmers are supported indirectly through levies included in domestic retail prices, while export prices are generally at a lower level. It has been suggested that this could have a depressing effect on retail prices. This is rather theoretical since the rising costs of imported raw materials (which would occur under an EC tariff schedule) and the possible increases in wholesale and retail mark-ups could offset the reduction.

The United Kingdom's deficiency payments system and its

system of direct grants would have to be replaced by the EC variable levy system. This could seriously affect U.K. trade with the Commonwealth countries, which enjoy Commonwealth preferences for many products under present arrangements—for example, livestock products from New Zealand, Australian butter and wool, and Canadian grain.

Effect for United Kingdom

The effect of EC membership for the United Kingdom has been widely discussed. Arguments pro and con usually have centered around two essential questions: What will be the effect on food prices, and how will membership affect the balance of payments? Responses to both questions assume a continuation of the present EC Common Agricultural Policy—an assumption which probably will have to be modified as the EC attempts to resolve its current farm crises.

An accurate estimate of the price effects of membership is difficult since changes in production and consumption are impossible to project precisely. However, in a recent study conducted at the Institute for Research in Agricultural Economics at Oxford, based on the assumption of entry into the EC, an average retail price rise for all foodstuffs of nearly 16 percent by 1975 was projected, reflecting the higher import prices under the EC variable levy system. This compares with a projected increase of 6 percent assuming no membership. For certain commodities, such as wheat and flour, import prices could be 50 percent higher. The U.K. Ministry of Agriculture in 1967 projected an increase of over 10 percent in total consumer food prices, an increase which could generate an inflationary effect. Since prices have risen in the EC since this projection, this estimate may be relatively low.

Since the United Kingdom would have to purchase imports from member countries at higher prices, the cost of imports would rise. Estimates of the net cost to the balance of payments range from \$960 million to \$1.7 billion. Levies collected on imports would have to be transferred to the Community's Agricultural Guidance and Guarantee Fund under present arrangements. In addition, direct cash contributions from the U.K. Treasury might be required. However, all new EC members, including the United Kingdom, would receive financial support from the Fund.

The United Kingdom in 1968 announced a policy for increasing domestic production of livestock products and grains and reducing imports of these products. Through this import saving plan, the United Kingdom hoped to save nearly \$400 million in imports by 1973. So far, prospects of achieving this goal are not very good. Thus, assuming that the United Kingdom continues to import a considerable percentage of its food needs and that surplus production of certain products in the EC continues to be a problem, it is likely that a flow of agricultural products would cross the channel to the United Kingdom and be adversely reflected in the United Kingdom's balance of payments.

Effects on U.S. exports

In the event of a broader EC, agricultural products from current member countries would become more competitive with U.S. exports to the United Kingdom. The EC would exploit its preference to sell wheat, barley, and corn to the United Kingdom, adversely affecting U.S. corn sales to that market. However, on the more positive side, since EC duties for high-protein oilseed products such as soybean meal are currently lower than those in the United Kingdom, adoption of EC duty levels by the United Kingdom could result in greater utilization of oilseeds. The United States is a major supplier of oilseeds to the United Kingdom.

Briefly, enlargement of the EC would probably develop as follows: If the United Kingdom joined, Denmark, Ireland, and Norway would simultaneously seek full membership. Later, Sweden and Finland might attempt some form of association, as would other EFTA members. Plans for a Nordic customs union have been adopted despite the possibility of a wider European unification (see *Foreign Agriculture*, Nov. 18, 1969) in part because the Scandinavian countries believe that this would facilitate rather than hinder discussions with the EC.

Unification of West European nations—if it ever occurs—into a wider market may be a slow, painful process. However, unrestricted access to new markets in itself may not be a panacea—either for current or for potential members—unless new agricultural policies are adopted to bring supply and demand into reasonable balance.

Argentina Announces Policy for Supplying Wheat Millers

In the face of another reduced wheat crop, the Argentine Government has notified millers of what assistance they might expect from the National Grain Board in meeting their 1970 requirements. A decree announcing the Board's policy provides that:

- Export commitments will have first priority on supplies acquired by the Board.
- The Board will supply wheat to domestic mills, if necessary, only in the last 3 months of the marketing year—September, October, and November 1970.
- The Board will limit its supplies to mills to 20 percent of the volume of wheat they milled in 1969.
- Prices for sales to mills will include financing and administrative costs, in addition to the Board's acquisition cost; these added costs were not included in the price in 1969.

Thus, the government has in effect told the mills that they must rely on their own market purchases during most of the

year. Since farmers tend to sell early, either to the trade or to the Board, the mills will have to make their purchases in advance. The large mills will have no problem, but the smaller ones may have difficulties with financing. The latter have tended to avoid stockpiling, buying only to meet their current needs.

The impact of the government's decree will depend to a large extent on the outcome of the current harvest. The first official estimate is 5.7 million tons, versus 5.74 million last year. This figure is still preliminary and could be revised upwards. Favorable rainfall toward the end of the year brought considerable recovery from serious drought damage early in the season, but the crop will still be below average.

The government will try to reserve export availabilities of bread wheat for traditional South American markets—chiefly Brazil, Peru, Chile, and Paraguay. Normal exports to these countries are about 1.5 million tons annually.

Story of the 1960's: Coffee in World Trade

In the past 10 years, the coffee world has witnessed a dramatic swing of the supply pendulum from surplus to deficit, despite widespread efforts to bring supply and demand into balance. With four (and perhaps five) short crops in a row, drastic reduction in world stocks, and many farmers losing interest, coffee seems headed for another boom period of tight supplies and higher price levels.

By JOHN I. KROSS and J. PHILLIP ROURK
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If the average person involved in some aspect of coffee production or trade were to be asked to summarize, in a word or two, the major problem confronting the world coffee industry during the 1960's, the answer would almost certainly be surplus production. In fact, to many the problem has seemed to be so overwhelming and all-pervasive as to be almost insoluble. Given this almost universal preoccupation with surplus production, it is not surprising that even today many people find it difficult to accept the increasing evidence that the corner has been turned and that we are, in fact, moving from a period of glut and depressed prices to one of tight supplies and higher price levels. In other words, another "up" cycle in coffee's long history as a boom-or-bust commodity has commenced; and it appears that this boom may last longer than any of those in the past.

With the attention of the coffee world riveted on the seemingly intractable problem of excess capacity—which the International Coffee Organization has sought to attack through the negotiation of production goals and the establishment of a diversification fund—it is little wonder that the gradual change in the pattern of world production has slipped by almost unnoticed. Also serving to obscure the change was the existence, throughout the decade, of large surplus stocks in Brazil enabling that country to continue to fill its international quota regardless of declining current production.

A brief glance at the genesis of the coffee problem and at the special conditions that made possible the tremendous expansion of production in the 1960's might be of help in understanding the origins of the previous boom; why the cycle of high production has now come to an end; and what may be the trend of production during the next few years.

How the previous boom began

The beginning of the previous upward cycle in world coffee prices may be said to date from about 1950. Prices had doubled on the world market in late 1949, in response to the exhaustion of Brazilian stocks; there were few alternatives to coffee in the Western Hemisphere countries at that time; labor was still cheap and abundant. And so the race to get coffee trees into the ground began.

In Brazil, particularly, the stage was set for a future massive increase in production when an entirely new area, the State of Paraná, was brought into coffee. Here the combination of rich virgin soils, new cultural techniques, and the use of high-yielding varieties just then emerging from the research station at Campinas brought forth unusually high yields per acre, and Paraná passed São Paulo as the leading coffee producing area in Brazil.

In many other Latin American countries, the opportunity was seized, not just to plant more coffee in the same old way but to make full use of the new varieties and the new technology available for the first time. Thus, not only did coffee acreage increase, but, more importantly, yields per acre went up sharply as well. The result was an increase in Latin American production from an average of 31,987,000 bags in the 2 coffee years 1949 and 1950¹ to an average of 55,718,000 for 1959 and 1960. (Averages for 2 years are used so as to minimize the effects of the traditional on- and off-year cycle in coffee production.)

The increase in production after 1950 was even more spectacular in Africa, where the advent of higher prices gave a fortuitous assist to programs already initiated by the mother countries. The British, French, Portuguese, and Belgians all viewed the expansion of coffee cultivation by Africans as a means of promoting economic growth and political stability. It seemed to offer many advantages: As a tree crop it would tend to settle many of the seminomadic tribes; it would provide a cash income to people who were exclusively subsistence farmers; it would conserve scarce dollar exchange for the metropole areas by replacing coffee imports from dollar areas; and it would earn dollars through exports to the United States and other markets.

These programs received another unexpected but significant assist from the coincident rapid increase in the use of soluble coffee, for which low-grade Robustas were well suited. Their success brought a dramatic rise in African coffee production from 4,552,000 bags (average, 1949 and 1950) to 13,115,000 (average, 1959 and 1960). However, by 1960 the forces that had begun this striking surge in production in both Latin America and Africa were no longer present or were so modified by events as to be of only minor significance in the continued growth of the industry.

What happened to production in the 1960's

Many factors were responsible for the reversal now becoming apparent in the upward trend of world coffee production. Throughout the 1960's, prices remained at levels which for many, if not most, producers provided little incentive to maintain farms and plantations in optimum condition. The more accessible lands, and the best, had already been planted. Yields had been improved to the point where any further increase would require heavy capital investment, which many people felt was not warranted under the circumstances. Wages and other operating expenses continued to rise year after year. And, importantly, in many areas alternative farm commodities, including livestock, became more attractive and began to compete with coffee for the farmer's attention.

¹ Coffee years begin Oct. 1.

Country or region	2-year averages, years beginning Oct. 1			
	1949 and 1950	1954 and 1955	1959 and 1960	1964 and 1965
	1,000 bags	1,000 bags	1,000 bags	1,000 bags
Harvested total:				
Central America	6,137	7,655	9,238	10,714
Brazil	19,500	20,800	36,500	23,850
Other South America ..	6,350	7,998	9,980	10,547
Africa	4,552	8,015	13,115	16,713
Asia & Oceania	1,351	1,884	3,391	4,284
Total	37,890	46,352	72,224	66,108
Exportable:				
Central America	4,316	5,608	7,105	7,743
Brazil	15,350	17,750	29,500	16,600
Other South America ..	5,392	6,885	8,342	8,430
Africa	4,245	7,477	12,471	15,956
Asia & Oceania	378	910	2,045	2,332
Total	29,681	38,630	59,463	51,061

Perhaps a valid indication as to whether coffee has been a profitable business might be obtained by examining the trend of production worldwide. During 5 of the past 6 years, world production has fallen short of world consumption—evidence that in many countries coffee was not, in fact, a profitable crop for farmers. While some of the deficit in production was due to weather conditions, a large factor was a decapitalization in the coffee sector which has had a pronounced negative effect on the use of proper husbandry and replanting.

All these conditions have persisted throughout the 1960's.

Because of the time lag between planting and first production, however, crops continued to increase from 1960 to 1965 in most areas, though at a slower pace. The trend towards stabilization and subsequent decline in production first manifested itself in Latin America, but by the late 1960's a leveling off in Africa was also apparent. Actual declines in production occurred primarily in Brazil—particularly in exportable production, as domestic consumption became more important.

In the last 4 years of the decade, world exportable production—notwithstanding a larger market than existed in the early 1960's—averaged a little more than 5 million bags below average production for the coffee years 1960-64. The two averages, together with annual production for each of the final 4 years, are as follows (in thousands of bags):

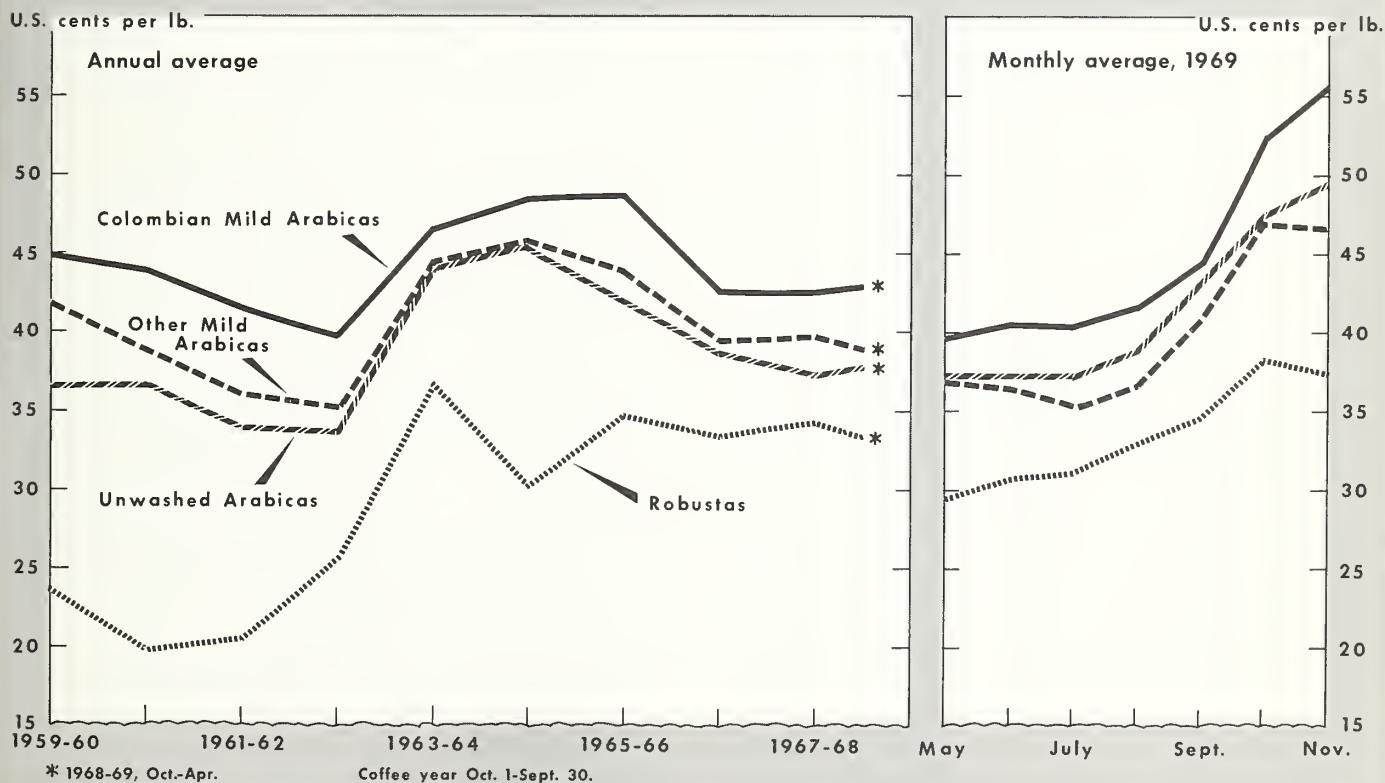
Average 1960-64	51,453
Annual:	
1966	44,448
1967	51,776
1968	43,000
1969 (second estimate)	45,810
Average 1966-69	46,258

The 1970 crop (to be harvested during 1971) reflects a severe frost in Brazil during July 1969. Long-term results of this frost, however, cannot yet be assessed.

Probable trend of the 1970's

It must be assumed that production during the next few years, say from 1970 to 1975, will have to come almost entirely from trees already in the ground. Even if the present

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price level is high enough to motivate the planting of new coffee trees (as opposed to normal replanting), these could not be set out in the field before 1971 (since nurseries would first have to be established in 1970) and would not produce crops of consequence before 1974 at the earliest. In a word, the time lag involved in such an operation is generally far longer than is assumed by those who are not familiar with the process.

Thus, for production during the next 4 to 5 years, we are left with the present tree population, almost all of which was planted before 1960. These trees have passed their peak, though they can be induced to produce good crops through adequate pruning and fertilization. Nevertheless, it is doubtful that production could be increased by more than 10 to 15 percent over present levels by 1975. Even the latter figure would result in an exportable production of only about 53 million bags—or about the same as present world import demand, which is estimated at about 52 million.

Given the virtual certainty then that world production will be below requirements for at least the next 4 to 5 years, what is the present stock situation?

Stock figures are admittedly a difficult and controversial matter, and USDA certainly makes no claim that its data are completely accurate. Without doubt, however, inventories have been reduced because of the smaller crops and now are in a tight situation. Carryover stocks in the 1963 coffee year were estimated by USDA to be around 72.2 million bags, or about 135 percent of the consumption requirement during that October-September period. In contrast, carryover stocks for the 1968-69 year were estimated at only 44.5 million bags, or about 85 percent of that year's consumption needs. Since world exportable production for 1969 is estimated at 45.8 million bags, or about 6 million less than the expected demand of 52 million, stocks by the end of this coffee year (Sept. 30, 1970) will decline to around 38 million bags, or 73 percent of expected consumption in importing countries.

While it is too soon after the July 1969 freeze in Brazil to forecast the world 1970 crop, evidence so far is that world exportable production will be small. Stocks, therefore, will have to be drawn upon to meet consumption needs. In assessing the stock situation, it is our judgment that there are quantities which are not of exportable quality but may be used in the producing countries for local consumption. Some stocks, however, are unfit for that purpose also.

World consumption and prices

World coffee consumption in importing countries has stagnated at around 52.5 million bags during the past 4 coffee years (1965-68): in 1965 it was 51.7; in 1966, 52.9; in 1967, 52.4; and in 1968, 52.8. Consumption in the United States has been declining since the early 1960's, and it appears that growth in Europe has slowed down. Consumption in producing countries has been enjoying a healthy increase in the past 5 years. But the big question posed now is, "With shorter crops, diminishing stocks, and higher prices, what will happen to coffee consumption?"

As noted in the chart on page 7, prices in the coffee year 1968 were not significantly different from those of 1959. In fact, if a trend line were constructed, it would show that—except for Robustas, which would have an upward slant—prices during the past 10 years were relatively stable.

This is true despite the fact that in the last quarter of 1963

and the first few months of 1964, coffee prices increased considerably. This rise was due to the market's reaction to the anticipated reduction of Brazil's crop by frost and drought damage. Although the short crop did develop, ample inventories were available in Brazil to meet market demands. Consuming countries, expecting a short crop, built up stocks; and when ample supplies turned out to be available, they worked off the stocks to normal levels. During this working off of stocks, prices declined somewhat. The existence and operation of International Coffee Agreements in the last half of the 1960's brought about relative coffee stability.

The chart indicates that prices also began to move upward dramatically in August 1969, as a reaction to the serious Brazilian frost damage of July 9-10. By the end of November, they had risen for all coffees. Unwashed Arabicas (Brazilians) were 12.20 cents higher in November than in July, Colombians 15.20, Other Milds 10.60, and Robustas 6.25. In what must be considered as essentially a psychological reaction to the freeze in Brazil, roasters and importers stepped up their purchases in August and early September, and prices for all four major types of coffee moved upward. The firmness of Brazils, in particular, lent strength to the market. However, even though the uncertainties engendered by the freeze and the current attitude of the market would appear to foreshadow a continued upward trend in prices in coming months, it is well to remember that coffee supplies are in fact adequate for the current coffee year.

Price differentials as well as price levels have undergone a change during the 1960's. This change has several elements: A narrowing of the differentials; a constant pattern until 1969, in which Colombian Milds received the highest prices, Other Milds the second highest, Unwashed Arabicas the third highest, and Robustas the lowest; and the replacement in 1969 of Other Milds by Unwashed Arabicas as the coffee receiving the second highest prices. While this sort of switch has occurred occasionally for short periods in the past, the differentials between Unwashed Arabicas and Other Milds have not been as large as they were on December 1—2.90 cents per pound.

Trends in the coffee trade

World exports of coffee have generally trended upward over the past decade, and trade is now about one-quarter higher than it was 10 years ago. Since the coffee year 1965, however, export requirements seem to have leveled off at a plateau of about 53 million bags.

The shares of the trade pie have changed. Latin America now accounts for less than two-thirds of the world export market, compared with three-fourths at the beginning of the period. Africa has shown the biggest gain and almost accounts for the displacement of exports from the Western Hemisphere.

On a total export quantity basis, there were gains during the 1960's for both Latin America and Africa. The increase for the former was only about 10 percent, while for the latter it amounted to about 75 percent.

Turning to world imports, we see that although now at a higher level than when the decade began, they appear to have reached a plateau. Increases realized until the coffee year 1966 could probably be related primarily to population gains. The United States remains by far the largest importer, taking about 45 percent of the world total. In 1968, imports into the United States increased by 19 percent over 1967; but this

was due to a building up of inventories in anticipation of a dock strike. Generally, net U.S. imports of coffee have changed but little during the 1960's. European imports have showed significant gains from 1959 levels, amounting to about 65 percent for the period. Thus, the U.S. share of the world import market is now about 10 percent less than in 1959.

The relative price stability that has been brought about in the last half of the 1960's was due to the International Coffee Organization and the agreements worked out under it. Although the International Coffee Agreements of 1962 and 1968 have contributed a measure of stability to world coffee markets, it is well to keep in mind that events and conditions beyond the control of the agreement still play a major role in the determination of world coffee prices. Two examples of this, at either extreme of the price spectrum, are to be found in calendar year 1969.

Early in the year, sluggish demand—occurred largely by the working off of excessive inventories in the United States—brought prices for most types of coffee to their lowest level in many years. These stocks had been accumulated in the United States in 1968 in anticipation of a longshoremen's strike. Subsequently, the July 1969 Brazil freeze touched off a wave of buying by importer countries that increased prices by 25 to 40 percent in the next 3 months; but prices retreated in November 1969. Thus it is evident that the law of supply and demand remained very much in force this coffee year, as it has during the life of the agreement.

From the 1930's to the early 1960's when there was no ICA, we witnessed the existence of chaotic marketing conditions, alternating periods of booming and depressed prices, unstable coffee export earnings, and uncertainty as to the availability of revenue, preventing countries from planning their financial affairs with any degree of confidence.

It is a matter of record that the ICA has stabilized prices

and improved foreign exchange earnings. Thus it has played a role in the area of AID; but this role was a byproduct of its search for solutions to the complex problems of coffee. The ICA does not have the objective of transferring capital from developed to developing areas of the world, and in our judgment this has not occurred. The foreign exchange earnings—amounting to \$1.2 billion in 1968—which developing countries have received from the purchase of coffee by U.S. importers have been largely used to import industrial and agricultural items from the United States.

The challenge to the ICO, especially for the coffee years 1970 and thereafter, is to create conditions whereby supply in times of shortfalls can move from production to consumption in an orderly marketing way. The machinery already exists in the agreement; it is stated in Article 34 as follows:

“(1) Exporting Members undertake to notify the Council as early in the coffee year as possible but not later than the end of the eighth month thereof, as well as at such later dates as the Council may require, whether they have sufficient coffee available to export the full amount of their quota for that year.”

Also requiring immediate attention by the ICO is a review of the programs for production goals, stocks, and diversification. Emphasis in these programs should now be to increase production in specific countries in the short run without creating burdensome surpluses for the world in the long run.

Today, the coffee world is again faced with a round of crises. The ICO provides a forum to examine the crises and to seek solutions which would be in the interest of producers and consumers alike. One thing certain is that coffee problems are real and will not go away by themselves. However, through international cooperation they may be reduced in magnitude, if not almost totally resolved.

OECD Studies Agriculture of Five Southern Members

How can countries where agriculture is most in need of modernization make sure that it contributes most effectively to their economic growth? An answer to this question is provided by a recently published study, *Agricultural Development in Southern Europe*, prepared by the Organization for Economic Co-Operation and Development for the governments of five less developed OECD member countries—Portugal, Spain, Yugoslavia, Greece, and Turkey.

All five countries are faced with two major problems of agricultural policy: the guiding of production in relation to requirements, whether for the home market or for prospective exports; and the radical improvement of their farm structure. These are the same problems as those that the developed OECD countries had to handle in adjusting their agriculture to economic growth; but in southern Europe, they are much more acute. As the report points out, agricultural development is far more important there in economic growth, despite the less favorable natural conditions.

The OECD study, adopted by the Committee for Agriculture and by the OECD Council, urges the five countries to work toward solving their production problems by turning increasingly toward livestock and certain specialized crops where they have real comparative advantages. For solving their structural problem, the report sets as an essential pre-

condition a faster decrease in the active farming population.

Leading up to these general conclusions, the OECD report describes in detail the agricultural situation in each of the five countries and analyzes the policies being applied to agriculture, especially to plans for economic development.

Unlike those of nearly all other OECD countries, the agricultural yields of these five southern European members are still insufficient. Yet agriculture accounts for a larger share of their general economic activity, in 1964-66 ranging from Spain's 19 percent to Turkey's 38 percent of the gross domestic product, compared with only 13 percent in Italy. In the same period, Spain and Turkey again represented the two extreme shares of total active population engaged in agriculture—30 percent and 75 percent, as against Italy's 25 percent. Agricultural exports accounted for 25 to 80 percent of total exports; yet only three of the five countries show a net surplus on their farm trade, with Portugal and Spain net importers of farm products.

A source of anxiety to the five governments is that farm output, especially of livestock products, has failed to keep pace with demand, and food prices have outstripped the prices of other commodities. This rise in demand, sparked by higher per capita incomes, must be met by the adaptation and modification of agricultural production patterns.

A Year of Recovery After A Bad Start

By DAVID P. EVANS

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This time last year the prospects for British agriculture looked less promising than they had for quite some time. The year just ended had been especially difficult. The livestock sector was still suffering from the losses caused by the disastrous foot-and-mouth disease epidemic of 1967-68 which had lasted until April. Meanwhile, a decline in liquid milk sales and mounting imports of dairy products were depressing the returns to dairy farmers.

On the crops front, the eastern and southern parts of the country, where farming is the backbone of agriculture, had passed through a harvest season marked by heavy storms. The yields per acre and quality of wheat and barley were down, disease problems were wide-spread, and, at times, harvesting became no more than an expensive rescue and salvage operation. After the harvest, the rain continued and temperatures fell so that field work and autumn sowings on the soaked ground were at best difficult and sometimes impossible; autumn sowings of wheat were down 19 percent from the previous year.

Consumers, too had their troubles. The shortage of supplies of beef which had been caused by the foot-and-mouth disease in Great Britain was further aggravated by a ban on bone-in beef imports from South American sources (later partially lifted) so that beef prices were high for most of the year. Milk prices were raised and certain welfare and school milk schemes were curtailed causing the cutback in sales. Pork had been expensive for 2 years because of a falling-off in production. Production in 1968 was a little higher than in 1967 but still below 1965 and 1966. In addition, the prices of many processed food items began to rise towards the end of the year partly as the result of sterling devaluation in late 1967 after which internal processing and raw material costs increased in the food industry.

Only poultry meat, eggs, butter, and cheese remained relatively plentiful and not much affected by the upward pressure on prices. The monthly average food retail price index in 1968 was 5.6 points above 1967—rising from 119.4 to 125.0 (Jan. 16, 1962=100)—the largest year-to-year increase since the index was constituted in its present form in 1962.

Farmers express discontent

Meanwhile, partly as a result of the year's misfortunes, Britain's farmers, through their influential country-wide organization, the National Farmers' Union (N.F.U.), were expressing deep dissatisfaction with the government's agricultural policy. The farmers were partially protected by deficiency payments from most of the pressures on market prices caused by cheap imports and they were further aided by minimum import prices and other import controls for select commodities. However, despite this protection, farmers campaigned increasingly for a decrease in agricultural imports, not only to safeguard their present position, but more important, to improve their future prospects by providing a

significantly greater proportion of the United Kingdom's food needs from British farms.

The government went some way at the end of last year to accommodate this view by announcing that agriculture was lined up for an important import-saving role and was to be provided with the means to expand production. Little was said, however, on how imports were to be kept down. The Conservative Party, meanwhile, had prepared a new policy of its own with import levies designed to raise market prices to a level at which guaranteed prices and deficiency payments from government revenue would no longer be necessary. Lurking in the background was the fact that the British application for entry into the EC was still "lying on the table" and that this entry if and when accomplished would completely change British agricultural policy.

This then was the picture at the start of 1969: A bad year for many farmers, some consumer restiveness over rising food prices, and mounting criticism of existing agricultural policies only partly disarmed by somewhat vague prospects of better things to come from both major political parties.

Bringing in the new year

The new year began with two policy disagreements. First, the N.F.U. rejected the Conservatives' policy for abandoning guaranteed prices; it was not considered safe enough to rely only on levies and "target" prices, although the levy aspect was welcomed as a means by which the role of imports would be lessened. Then in March, the N.F.U. disagreed with the Government's Annual Review and Determination of Guarantees for 1969-70, as being far short of what they had been led to expect from the import-saving role statement, and as not even being adequate to compensate for the difficulties of 1968. (The Review increased the value of the guarantees by \$81.6 million; the N.F.U. was believed to have wanted at least \$108 million.) The government countered by claiming the 1969 Review was only the first stage of a continuing program of selective expansion and stressed that it intended to work for a better coordination of imports with U.K. production through agreements with foreign suppliers.

The somewhat bad-tempered start to the year was not helped by a colder-than-average winter and a spring which seemed as though it would never come. Already behind with autumn work, spring cultivation and sowing were also difficult and late. The June 1969 crop census figures revealed the smallest wheat acreage since 1963 and the smallest potato acreage since before World War II. However, despite the poor spring, the barley area was up 1 percent from 1968. The area of fallow was the largest since 1947.

By June cattle numbers had recovered from the foot-and-mouth disease ravages and reached a level even slightly higher than that recorded in June 1967, the census before the epidemic. Pig numbers had risen further and the expansion in broilers had continued, but at a slightly lower rate than that in 1967-68. Another favorable sign was that liquid milk sales stopped falling and were soon to start rising again, although only marginally. On the other hand, sheep numbers fell to the lowest June level since 1958.

It was in the crops sector, however, that the most spectacular improvement occurred. From June on, the weather suddenly turned very warm, sunny, and dry. The slow start experienced by most crops was largely made up and the harvest season was in direct contrast with that of the year before. Crops were harvested quickly and easily; wheat yielded 61.7 bushels per acre, 17 percent above the 1968 level. The quality of wheat was much better than the last year's and the higher yield per acre offset the reduced acreage planted to wheat. The barley quality was good and the yield at 68.9 bushels per acre was 7½ percent above the 1968 level. Root crops did not increase as well in the dry weather but again there was the compensation of dry harvesting conditions and, in the case of sugarbeets, a high sugar content to offset the lower beet production. The apple crop was the largest for some years and pears and plums were reasonably good in quantity and of high quality.

After the harvest, the weather remained favorable with an exceptionally warm and dry October. The latest reports indicate that autumn wheat sowings were up 40 percent from last year.

Looking ahead

So far as 1970 prospects are concerned, the good condition of the land has transformed last year's gloomy outlook in the crops sector. For livestock, the warm autumn has favored pastures and the condition of all stock at the start of the winter was good. The U.K.'s Meat and Livestock Commission expects that U.K. beef production in 1970 will show a modest 3½ percent rise above 1969. Bone-in beef imports from South America have been banned since October 1 and the Commission hopes that the rise in U.K. production will be sufficient to offset any shortfall in imported supplies. Pork

production is expected to increase 3 percent in the first quarter of 1970 and then level off. In view of the declining sheep population no increase in U.K. mutton and lamb production is possible. Generally speaking therefore, no weakening of the market in meats looks likely, although, on the other hand, no marked price increases are predicted.

Regarding agricultural policy, both the Labor Government and the Conservative opposition have moved a little closer to meeting the farmers' demands. In 1970, the government is extending a minimum import price and levy system to eggs and egg products and is working on a similar mechanism for beef. It should be noted, however, that the minimum import prices and levies under the present government's policy are at levels well below those envisaged by the Conservatives. The Conservatives, meanwhile, have recently moved to meet N.F.U. objections to their policy by incorporating into it a modified guaranteed price system with provision for limited deficiency payments under certain circumstances. However, the farmers are still dissatisfied and the N.F.U. is asking the government for a record \$336 million in additional support funds in the 1970 Annual Review. The Union President, G. T. Williams, said "We are on the brink of the most desperate financial crisis to face British agriculture since the 1930's."

Once more at the fore is the EC membership issue—prospects for negotiations are firmer after the Community summit meeting in The Hague in December. Over the past year or so, a fiercely vocal opposition to U.K. entry into the Community has gathered strength in Parliament and the press, using the balance-of-payments costs of financing Community agriculture and the potential increase in food prices as two major items of anti-EC ammunition. Recent public opinion polls indicate a considerable measure of success among the population for these anti-Common Market forces.

USSR's 1969 Grain Harvest Drops More Than 5 Percent

The Soviet Union's State Planning Committee Chief, Nikolai Baibokov, recently announced that the grain harvest for 1969 was nearly 10 million tons below the previous year's level which was estimated at 130 million metric tons (excluding lentils). Unfavorable weather conditions both at the beginning and end of the crop season were cited as the primary reasons for the decline. A crop of this size still would be above the recent 5-year average which includes the record 1966 harvest.

In late November the U.S. agricultural attaché estimated the 1969 gross production at 140-145 million tons. On a usable basis, (excluding excess moisture and trash) this would probably mean no more than 120-125 million tons. These estimates were based on allowances for winter kill in the northern Caucasus and also the bad weather conditions and late harvest. Government purchase data on grains were still quite limited. However, as of November 14, procurement of 1969 grains was about 43 million tons compared with over 45 million at the same time a year ago.

Near-record '68 harvest

The latest report shows production of the major grain crops in the USSR for 1968 at 129.9 million metric tons as compared with 116.3 million during 1967. These data are on a usable grain basis and indicate an 11.7 percent increase. The official gross production totaled 157.9 million tons in 1968.

While wheat and rice crops showed substantial increases, all other grains made smaller gains with the exception of corn which declined by 18 percent.

Acreage during 1968 was 274.9 million, a slight gain over the previous year. Only rye and oat acreage decreased while other grain land showed some increases.

On December 15 the Canadians announced that agreement had been reached on the sale of the balance of 3.43 million long tons of wheat remaining under the 1966 contract with the USSR. This would seem to lend at least some support to reports of a reduced harvest, although changed world price conditions may also have been a factor. However, stocks from last year's near-record crop are, no doubt, still available.

The new contract calls for at least 2 million long tons to be shipped by December 31, 1970. This includes 260,000 long tons of flour destined for Cuba.

Shipments are to be made from all Canadian port areas and mainly consist of Manitobas Nos. 3 and 4. Terms are on a cash basis.

Harvesting problems in the New Lands

A recent article by A. Baraev, Director of the All-Union Institute of Grain Production in Shortandy, points out many of the problems encountered and gives a comprehensive description of the 1969 grain production in the New Lands. Growers were first faced with a late and cold spring which

delayed planting about 2 weeks; then, in early June, dry weather damaged the sown grain. Although the crops were revived somewhat by July rains, further difficulties arose since part of the crop matured earlier than the rest causing a delay at harvesttime. Additional complications set in with more rain in October and snow in November. Such a delayed harvest has only occurred four times in the past 43 years. The article did not state the amount of grain lost, but all indications point to sizable amounts.

It now appears that the moisture content of the grain harvested is higher than usual. The managers of elevators usually refuse to accept grain with a moisture content of 25-28 percent. However, because the harvest of entire crops or a large portion was delayed, elevators agreed to accept wheat at these high moisture levels. Another complication is the chronic shortage of drying equipment and storage facilities.

Baraev proposes two solutions for the problems caused by the short growing season in the New Lands. First, the development of early-maturing wheat varieties; and second, increasing the number of machines available for use—particularly combines and dryers.

1970 agricultural plans

The Soviet budget for agriculture in 1970 is similar to last year's in that it stresses increased deliveries of mineral fertilizer, but neglects the production of agricultural machinery.

Agricultural production in 1970 is forecast to be 8.5 percent above the 1969 level and includes a projected increase of 8.7 percent in grains. Fertilizer deliveries are planned to increase

20 percent to more than 46 million tons. Projected deliveries of agricultural machinery would increase less than 5 percent.

The increased use of fertilizer should make a significant contribution to raising agricultural production. However, the failure to increase machinery deliveries will limit what can be done in improving the timing of sowing and harvesting, particularly in years with weather problems.

USSR: ACREAGE AND PRODUCTION OF GRAINS

Commodity	Acreage		Change from 1967	Percent of change
	1967	1968		
	1,000 acres	1,000 acres	1,000 acres	Percent
Wheat	165,620	166,128	(+) 508	(+) .3
Rye	30,685	30,317	(-) 368	(-) 1.2
Rice	694	771	(+) 77	(+) 11.1
Corn	8,011	8,278	(+) 267	(+) 3.3
Barley	47,196	48,432	(+) 1,236	(+) 2.6
Oats	21,500	21,004	(-) 496	(-) 2.3
Total grains ..	273,706	274,930	(+) 1,224	(+) .4
	Production			
	1,000 metric tons	1,000 metric tons	1,000 metric tons	Percent
Wheat	64,000	76,600	(+) 12,600	(+) 19.7
Rye	12,000	12,700	(+) 700	(+) 5.8
Rice	804	970	(+) 166	(+) 20.6
Corn	9,163	7,500	(-) 1,663	(-) 18.1
Barley	20,700	22,400	(+) 1,700	(+) 8.2
Oats	9,600	9,700	(+) 100	(+) 1.0
Total grains ..	116,267	129,870	(+) 13,603	(+) 11.7

Philippines: New Measures Increase Import Restrictions

Following the national elections on November 11 the Government of the Philippines implemented new import restriction measures designed to improve the country's precarious foreign exchange position.

The first move was the issuance of a memorandum by the Banker's Association of the Philippines on November 14 which reduced the monthly ceilings on foreign currency letters of credit from 70 percent to 55 percent of the October 1968-March 1969 average. Then, on November 26, the Central Bank, in Circular No. 282, revoked the authorization granted under Circular No. 252 (Oct. 26, 1967) for importation of certain commodities on documents against acceptance, documents against payments, or open account basis. In the same Circular, the Central Bank rescinded all exemptions from the special time deposit requirement, except imports of certain machinery and spare parts for export-oriented industries.

As reported in *Foreign Agriculture* August 11, 1969, previous import credit restrictions had already significantly reduced import prospects for several categories of commodities which move into the Philippine market in small quantities, and limited the foreign exchange available for all imports. These latest import credit restrictions pose a further serious threat to Philippine imports of prime U.S. agricultural commodities, such as wheat, cotton, and tobacco.

Commodities which were exempt from the special time deposit requirement prior to the announcements of November 14 and 26 included corned beef, corned beef hash, corned beef loaf, full cream evaporated milk, condensed sweetened

milk, sterilized natural milk, powdered milk, malted milk for infant feeding, rice, and raw materials for the following industries: meat canning, milk canning, vegetable canning, flour milling, and animal feed manufacturing. All of these consumer goods are now subject to a special time deposit of 50 percent for 120 days, and raw materials for the industries, up to 25 percent for 90 days.

In terms of U.S. trade, wheat is by far the most important of the commodities previously exempt from the letter of credit requirement. However, members of the Philippine flour milling industry are hopeful that the Central Bank will again permit wheat imports outside the special time deposit and letter of credit requirement. They have asked for a review from the special Central Bank committee which is considering requests for relief from the new import-credit restrictions on a case-by-case basis. The poultry and feed manufacturing industries are making similar requests.

The outlook for imports reaching a level comparable to recent years appears very bleak. The trade reports that new contracts for imports are virtually at a standstill and competition for the available supply of foreign exchange is intense. The situation may be improved temporarily if the Philippines is successful in obtaining the loans now being solicited abroad, but it appears that even under the best conditions, the Philippine market for imported goods will be severely restricted over the next several months.

—Based on dispatch from FRED W. TRAEGER
U.S. Agricultural Attaché, Manila



A herd of Nelore cattle, yearlings, and calves are moved across a pasture cleared from jungle in São Paulo, central Brazil.

Brazil's Big Beef Industry Examined

By SHACKFORD PITCHER
U.S. Agricultural Officer, São Paulo

In 1968 Brazil exported nearly 40,000 metric tons of frozen and chilled beef and veal and nearly 20,000 tons of processed beef for a total value of almost US\$40 million. Its share of world beef and veal trade moved up from about 1 percent in 1967 (a particularly poor year) to over 3 percent. Exports during the first 7 months of 1969 were well above 1968 levels, and the outlook for 1970 is continued good sales. Brazil has a strong competitive position in the world beef market because of its low cattle and meat prices.

Brazil's beef and veal shipments are chiefly frozen and chilled meats, canned corn beef, and frozen cooked beef, which is sold mostly to the United States. Frozen and chilled beef is not exported to the United States because of the presence of foot-and-mouth disease in Brazil.

But Brazil's beef and veal exports are small in comparison to the domestic importance of the cattle industry. Brazil, with over 60 million head of cattle, has the largest herd in South America and ranks as the fourth largest cattle-producing country in the world. Cattle raising is the principal economic activity in most States. In São Paulo, where agriculture is diversified and there is a strong emphasis on commercial crops, beef was the major source of farm income in 1968. The value of Brazilian beef production is double that of coffee, which is the country's chief agricultural export and is 40 percent of all exports.

The buildup of recent beef exports from Brazil is somewhat misleading in relation to development of the cattle industry within Brazil. Greater exports are not the result of marked growth in domestic beef production. Rather, per capita consumption of beef within Brazil appears to have fallen sharply during the past 5 years owing to a decline in the purchasing power of a sizable share of the population and to the substitution of other products, such as poultry, even though beef

prices since 1964 have not increased nearly as much as the general cost of living. If beef consumption were still at the level of the early 1960's, it seems doubtful that Brazil would have much available for export.

Actually, Brazil's seeming position as an exporter of growing importance is illusory. Exports are at the expense of low producer prices, which, in turn, are causing a stagnation of the country's beef industry.

One of the principal characteristics of Brazilian cattle production is low yield. The United States with about 110 million head of cattle slaughters over 40 million head annually—or 37 percent. In Brazil the rate is less than 12 percent. Argentina, Brazil's neighbor to the south, has a slaughter rate of nearly 25 percent.

Cattle pattern

Rio Grande do Sul—the State furthest south in Brazil—probably has the largest concentration of cattle in the country. Over half its area is devoted to fairly intensive livestock raising—mainly beef cattle and sheep. European breeds, such as Hereford, Charolais, Devon, and Angus, dominate. Most of the grazing land is native grasses. In many areas a rice-cattle economy exists; land is planted in irrigated rice for 1 year and then used as pasture for 3 or 4 years.

Rio Grande do Sul cattle traditionally have been available for export as beef, and for many years this State has been the source of most of Brazil's exports. Several large packing plants are operated by international firms at present. At one time there were over 20 slaughter plants that prepared *charque* (a sun-dried beef) for export and for shipment to other parts of Brazil. During the past 5 years many of the *charque* plants have added freezing equipment and are now preparing frozen beef for export.

Cattle numbers in *Rio Grande do Sul* have been stable at about 11 million head for several years; the chief variation in the number available for slaughter each year depends on the weather. As in the rest of Brazil, all the cattle are pasture

or grass fattened. Since nearly all pastures are unimproved, weather controls the quality and quantity of feed.

In *central Brazil* beef is raised and slaughtered chiefly for the domestic market. The pattern of cattle supply and demand in central Brazil is as follows. Although Minas Gerais has the largest number of cattle of any State in Brazil, São Paulo slaughters more. Both feeder and fat cattle are shipped to São Paulo from Mato Grosso, Goiás, and Minas Gerais. The beef is consumed locally or in nearby large cities. Some of it becomes the canned beef of Brazil's beef exports.

The importance of cattle raising to São Paulo is clearly indicated by the fact that half the area of the State is in pasture. Much of São Paulo was opened up by cattlemen, who cleared dense forest to establish pastures.

Zebu, or Brahman-type, cattle predominate as beef breeds, but many cattle are mixtures of European and Zebu breeds. Other than a few Charolais, there are practically no purebred beef cattle entirely of European origin in central Brazil. A few ranchers are becoming aware of the advantages of European-Zebu crosses, and new breeds, such as the Santa Gertrudis, are gaining popularity.

Central Brazil has some excellent Zebu cattle, thanks to careful selection. Probably the most popular breed is the Nelore, whose coloring and type is quite similar to most of the Brahman cattle in the United States. Other major Zebu breeds include Guzera, Indubrasil, and Gir. The last does well as a dairy animal under tropical conditions.

About half the year in central Brazil, in the rainy season, grass is abundant. During the dry season grass conditions tend to deteriorate, and cattle generally lose weight before the next rainy season starts. Dryness and its effects on feed availabilities vary from area to area. For example, grass in the dry season is usually good in the Pantanal—an immense swampy area in Mato Grosso. However, cattle are generally not fattened for slaughter on the Pantanal because of poor roads and long distances to major consuming centers. The Pantanal is chiefly a breeding area providing feeder cattle 2 years old and up for the fattening pastures of São Paulo.

In *northeast Brazil and the Amazon area* cattle raising seems to be expanding and developing after centuries of little change. Although the criole type of beef cattle, brought in by Portuguese settlers in the 16th and 17th centuries, still dominates, many ranchers are buying Zebu bulls from central Brazil for upgrading breeding herds.

Cattle and cotton are the two major agricultural activities in the dry areas of most of the northeast. They complement each other. The cattle graze on the cotton leaves after the cotton is picked and are fed cottonseed meal. In the more humid regions of the northeast the development surge is based on the creation of improved pasture and the feeding of sugarcane tops by some ranchers. Northeast cattlemen are now getting some feeder cattle from breeding districts of Goiás and Minas Gerais—areas which formerly relied entirely on supplying cattle for the fattening pastures of central Brazil.

Cattle raising also appears to be expanding in the Amazon area—Brazil's last frontier—but to a lesser extent than in the northeast. Most of the recent development is being made possible by the fiscal incentives of federal regional development programs. The federal programs are called SUDENE in the northeast and SUDAM in the Amazon area. For the development of industry, the Amazon offers fewer opportunities than the populous northeast, so most SUDAM projects

are involved with agriculture and livestock. Much of the land in the Amazon being opened up to cattle raising is being developed by individual south Brazilian ranchers or by small companies comprised partly of ranchers.

Cattle feeding

Although Brazil's cattle are extensively grass fed, only some Brazilian pastures are on native grasslands like the Pantanal and parts of Rio Grande do Sul. Most of Brazil's pastures were once in jungle and forest.

The traditional slash-and-burn method was, and still is, commonly used to clear land. Often workers who clear the land are compensated for their efforts by being permitted to crop it for a couple of years, after which they return it to the owner planted in pasture. Under this system, one of the few cash expenses is for barbed wire. Wood for fenceposts and other lumber is taken from the original forest.

Far away from settled regions it is harder to get colonists and workers for land clearing, so ranchers find it necessary to pay contractors to clear land.

Until a few years ago, land was plentiful and cheap; and ranchers, particularly in central Brazil, could increase cattle production simply by adding more pastureland. The technique was cheaper than improving existing pastures. The quest by ranchers for good pastureland continues, with land being cleared in distant areas of Minas Gerais, Goiás, Mato Grosso, and even Pará in the Amazon area. Such frontier development was responsible for the sharp increase in Brazil's cattle numbers during the 1950's.

Established Brazilian pastures are predominantly of a single grass species, although in recent years some ranchers are interplanting legumes. A grass pasture, once established, usually has peak carrying capacity for about 5 years. If not properly managed, pastures then decline as weeds and pests take over.

A few ranchers are finding it pays to fertilize pasture and are attempting to overcome the weed problem by using herbicides. However, because the stumps were frequently not removed when the land was originally deforested, rejuvenation may be difficult. The only fertilizer most pastureland



gets is the residual of that applied during cropping.

So far in Brazil, the improvement of pastureland is not offsetting the continuing deterioration of soil fertility in areas where improvement is not practiced.

Because Brazilian cattle are bred and fattened on grass, it generally takes over 4 years to bring a steer to market weight. Only a few ranchers supplement grass with protein concentrates or other feeds. There are no feedlots in Brazil for fattening cattle on a large scale, and feeding in confinement is practiced by few. At the same time, Brazil produces large quantities of feed items such as molasses, cottonseed meal, cassava, and corn and has a surplus of many of these items which is exported.

Fat cattle prices in Brazil simply do not permit economical supplemental feeding except perhaps at the final stage of fattening when 3-year-old steers can be put on feed at the beginning of the dry season for finishing during the latter part when fat cattle prices are at their highest. Although many ranchers are aware of this opportunity, they are unable to take advantage of it as they do not have the necessary installations and organization.

Beef marketing

Starting backwards up the chain of supply—that is, going from consumer to producer—one often finds a federal agency of the Brazilian Government in control of prices and sometimes of supplies. For example, one such agency (SUNAB) leases one large packing plant in São Paulo, an important cattle-slaughtering area, and contracts for slaughter in plants located in São Paulo, Minas Gerais, and Goiás. SUNAB supplies about half the beef sold in the Rio de Janeiro city market and nearly a fourth sold in São Paulo's city market. In addition, SUNAB fixes markups on wholesale and retail sales of beef in the major consuming centers.

The Brazilian Government has kept beef prices low and beef available to a larger share of the urban population. But they have also made cattlemen unenthusiastic about trying modern methods of increasing beef production—such as pasture improvement and stocklot feeding—that require capital.

In addition to the brakes put on production by low prices,

a less-than-streamlined marketing structure adds to problems. Major breeding areas are distant from fattening pastures, which are usually located nearer the meat-packing plants. Long cattle drives of 30 days or more are still not uncommon in Mato Grosso and Goiás. However, more and more feeder and fat cattle are being transported part way by rail or truck.

Practically all meat-packing plants are privately owned, and several in Rio Grande do Sul and central Brazil are operated by international firms. Because of a building boom in recent years in packing plants, few operate near capacity.

Cattle outlook

The Brazilian beef cattle situation has been somewhat depressed since 1964, mainly because of a deterioration in the returns to cattlemen. For some years prior to 1964 cattle prices increased at a rate close to the cost-of-living increases. Since then cattlemen have had difficulties adjusting to the cost-price squeeze under existing management practices. Many have found it necessary to shave their breeding herds.

The Brazilian Government—in recognition of the deteriorating situation for cattlemen—is stepping up credit programs that permit ranchers to borrow money for pasture improvement, construction of water facilities, and so on.

The World Bank is lending Brazil US\$40 million to be matched with an equal amount of Brazilian funds for a livestock development program in certain areas of Minas Gerais, Mato Grosso, São Paulo, and Rio Grande do Sul.

In March 1969 the Inter-American Development Bank approved a loan of US\$26 million, also to be matched with local funds, for a credit program to expand beef production in Bahia, Minas Gerais, and Espírito Santo.

Both the bank programs involve supervised credit. Some of the more short-range goals of each program are to increase pasture-carrying capacity, improve weaning rates, and reduce the time to bring a steer to slaughter weight.

Many cattlemen are aware of these credit programs—but under present market conditions they find it difficult to take advantage of them. Because of low cattle prices, they are unable to obtain satisfactory returns and cannot justify new investments or the risk of utilizing borrowed capital.



Above, cattle drive in São Paulo. From left to right, scenes from ranch in Pará, Amazon area: men erecting fences; thin steers after 70 days on trail graze new pasture; steer after 7 months of pasture fattening.



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Foreign Agriculture

Swiss Speed Kennedy Round

Switzerland, following Canada and Ireland, is accelerating Kennedy Round (KR) duty reductions. The Government has announced that in an effort to counter inflationary pressures in that country it intends to implement its remaining KR duty reductions at one time, and as rapidly as possible. Remaining reductions had been planned in three steps—January 1, 1970, 1971, and 1972. However, in order to make the required procedural arrangements, it will be necessary to delay the scheduled January 1, 1970, reduction date by up to 3 months. All three stages would thus be implemented on or before April 1, 1970, hopefully thus having a maximum impact on consumer prices.

The announcement also stated that the consolidated reduction had been approved and welcomed by the contracting parties of the General Agreement on Tariffs and Trade (GATT). Those exporters who had planned sales to Switzerland in early 1970 based on the scheduled 1970 duties may wish to postpone such sales for a short time in order to enjoy the benefit of even lower duties.

Some of the items in which the United States has a significant supplier interest which would be affected by the advanced implementation of the KR concessions are canned asparagus, canned pineapple, certain poultry fat, concentrated fruit juice, raisins, fruit cocktail, hides and skins, canned pet food, citrus and other specified essential oils, and certain naval stores (rosin and spirits of turpentine).

Jamaica Boosts Sugar Industry

The Jamaican Government recently granted the sugar industry an increase of 3.6 U.S. cents in the price of refined and C-grade sugar, and 1.2 cents in the price of D-grade sugar sold domestically. An exception is D-grade sugar used in condensed milk and in the manufacture of products for export. The industry also received a 40-percent depletion allowance for new investment, as well as liberalization of the fertilizer subsidy to farmers, raising the maximum acreage qualification for the subsidy from 100 to 200 acres.

The total benefit of the price increases will give the sugar factories a much-needed additional \$3.4 million. The additional revenue does not represent a net benefit to the factories, since it will be shared by the sugar manufacturers and the cane growers. The government has also obtained an understanding from the sugar industry that the workers will receive an appropriate share of the increased revenue.

Although the new measures taken by the Jamaican Government will be helpful, some persons look on them as only a reprieve. The future of the sugar industry depends on its ability to mechanize and to reduce costs. The mechanization of cane harvesting will take 5 to 10 years before it shows an appreciable effect on production costs. In addition, better cultivation and production methods are necessary.